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*Laos: The Communists have outlined their most explicit terms to date for ending the war.

A Lao Communist statement issued in Hanoi on 6 March asserts that as a precondition to a political settlement, the US must "stop escalating the war, cease the bombing of Lao territory without conditions, and withdraw all US advisers and military personnel from Laos." These demands are not new, but the statement then goes well beyond previous pronouncements in spelling out what the Communists are prepared to do to end hostilities. By having this statement made in Hanoi and by broadcasting it internationally over the official North Vietnamese news agency, Hanoi has demonstrated that the statement carries its full endorsement.

Specifically, the Lao Communists have indicated that once the bombing is halted, they are prepared to accept a cease-fire. During this period, the Communists propose that a "consultative political conference composed of representatives of all Lao parties...set up a provisional coalition government." The conference would take place in a "security zone" to prevent pressures from within or outside of the country. This reflects the Communists' sensitivity to their past experiences in trying to participate in a government in rightist-controlled Vientiane.

While the proposal for a cease-fire may be welcome news in Vientiane, it is not without a price. The Pathet Lao are insisting that once a stand-down in military operations has been achieved, the "pro-American forces" must withdraw from areas they have "illegally" occupied and resettle all the refugees who have fled from Communist-controlled areas of Laos.

The timing of the statement may provide some clues as to its purpose. It was issued after the retrieval of the Plaine des Jarres, which until Vang Pao's offensive last year had been in Communist hands since 1963, but before the Communists pushed

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into sensitive government-held areas. Thus, at present neither side can claim a distinct or clear-cut territorial advantage. Before they moved toward negotiations, the Communists had been expected, for example, to reintroduce their presence into all areas that were under their control in 1962. They have not yet done so, and today control fewer people and no more strategic territory than they did in 1962 or 1963.

This lends some credibility to their offer to seek a "political solution," and it probably will increase the bid's acceptability in Vientiane. At the same time, however, by issuing the statement now, the Communists provide themselves with a political justification for intensified military activity, particularly should Souvanna reject it out of hand. The Communists presumably felt that they had to make some positive-sounding response to Souvanna's political offers, first to "neutralize" the Plaine des Jarres and more recently, to reconvene the signers of the 1962 declaration.

In making a "complete" cessation of US bombing in Laos a precondition to talks between the Lao factions--something that Hanoi must calculate would be unacceptable to Washington--the North Vietnamese may hope to achieve a number of purposes. They may hope to drive a wedge between Souvanna and the US, perhaps even causing Souvanna to publicly call for a cessation of US bombing. But Souvanna has made it clear both in statements to the North Vietnamese ambassador last year and in a press conference only yesterday, that what happens in the infiltration corridor is a subject for settlement between the US and North Vietnam.

Even if Souvanna does not lend himself to such manipulation, the North Vietnamese no doubt hope that the offer will provide them with a decided political and propaganda advantage on the issue of

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Laos and its relation to the war in South Vietnam. The overture is clearly designed to play on growing fears in the US that the Laos war is getting out of hand.

It may reflect more, however, than simply a North Vietnamese effort to embarrass the US or to maneuver Washington into stopping the bombing in the infiltration corridor. It is conceivable, for example, that North Vietnam really wants to tamp down the fighting in North Laos. In the past two years the fighting has been extremely costly in North Vietnamese lives and material and has demanded an ever growing number of front-line troops to achieve relatively limited gains.



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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State or of the Defense Intelligence Agency, Department of Defense.

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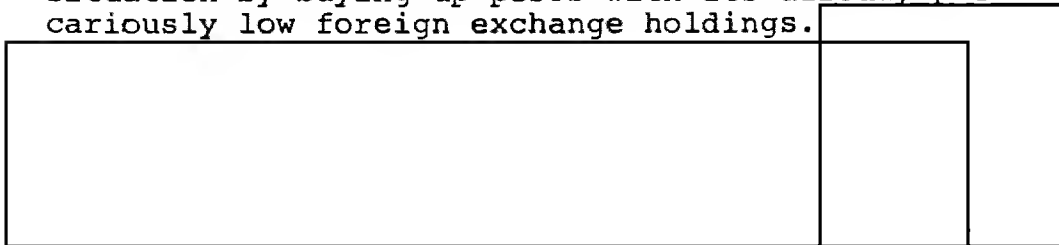
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Philippines: Monetary instability has added another irritant to the unstable political situation.

The de facto devaluation of the peso on 21 February has resulted in a sharp rise in domestic prices, and shortages of imported goods as Philippine consumers buy in anticipation of even higher prices. Bus companies and jeepney drivers, who participated in recent political demonstrations, are demanding higher fares, and oil companies are talking about a 30 percent increase in gasoline prices. Because of the rising living costs, industrial workers are pressing hard for more than a 50 percent increase in the minimum wage.

Any major pay boosts, however, would seriously limit the effectiveness of the devaluation on the reduction of imports by injecting additional purchasing power into the economy. On the other hand, a rejection of these demands would broaden discontent with the Marcos administration and could contribute to further demonstrations. Meanwhile, the value of the peso in terms of other currencies continues to decline sharply. By 6 March it had fallen by nearly 40 percent. If the decline continues, the Central Bank will be forced to stabilize the situation by buying up pesos with its already precariously low foreign exchange holdings.



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International Aviation: Intensive discussions have not yet uncovered any promising international measures that might soon be taken to deal with the problem of civil aviation safety.

Twenty representatives to the European Civil Aviation Commission met in emergency session in Paris earlier this week at the request of West Germany and the Benelux countries. After two days of debate, the delegates could only call on their individual governments to set up "airport security committees" to counter sabotage and hijacking attempts. Although they also unanimously resolved to request the Secretary-General of the 116-member International Civil Aviation Organization (ICAO) to convene an extraordinary meeting of the ICAO Assembly, the Assembly is unlikely to meet before May.

The Swiss and the Austrians have been the primary proponents of an ICAO Assembly session. Austria has also sought to place the issue on the agenda of the current session of the UN Commission on Human Rights but has not gained much support for this move. The Arabs have warned that, should the Commission decide to consider air safety problems, they would emphasize the Israeli raids on the Abu Zabel metal factory and the Beirut airport.

The most likely form of international action may be a movement to secure early and widespread ratification of the 1963 Tokyo Convention--20 ICAO members are now parties to it--requiring a state in which a hijacked plane lands to restore control of the plane, passengers, crew, and cargo to the aircraft commander and to facilitate its onward flight. A new convention being developed within ICAO to make hijacking a punishable offense may be extended to include air bombings and to provide for some harmonization of airport security measures.

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[Guatemala: Communist terrorists are demanding the release of four prisoners in exchange for a US Embassy official kidnaped yesterday.

The Cuban-oriented Rebel Armed Forces obtained the release of a guerrilla last week after abducting the foreign minister, and the Communists have engaged in a series of terrorist activities designed to disrupt the presidential succession scheduled for 1 July.

The Guatemalan electorate gave a plurality, but not the majority required for victory, to opposition rightist presidential candidate Carlos Arana, whose succession now depends on congressional ratification. The post-electoral calm has been threatened by official party attempts to deprive Arana of his legislative confirmation as president-elect.

The Communist groups probably hope to exploit current political tensions by continuing the terrorist campaign launched during the election campaign.

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West Germany: The Bundesbank yesterday raised its discount rate from 6 percent to 7.5 percent, the highest rate in the postwar period.

This sharp rise, immediately after the reduction in the UK discount rate from 8 percent to 7.5 percent, dramatizes the Bundesbank's concern over accelerating inflationary pressures in the economy. The cost of living index in January 1970 was up 3.5 percent from the year before, and the index of industrial prices 4.7 percent.

Economics Minister Schiller proposed prepayment of taxes to counter these tendencies, but he was overruled in the cabinet on political grounds. The Bundesbank's action can therefore also be seen as a reaction to the government's failure to take stronger fiscal measures.

The immediate impact of the move is psychological. It serves as an unmistakable warning to business and labor to moderate their price and wage demands, and to the government to intensify its anti-inflationary measures. The interest rates throughout the economy will undoubtedly rise as a result of the increase in the discount rate. The impact on credit, however, is likely to be less severe than other monetary policy measures would be such as an increase in the minimum reserve requirements of the commercial banks. The Bundesbank is clearly stepping on the brake, but it has been careful not to lock the wheels. Indeed, some bankers and economists anticipate a cooling-off of the economy later this year without new restrictive measures, and they fear that too much restrictive action could lead to a recession.



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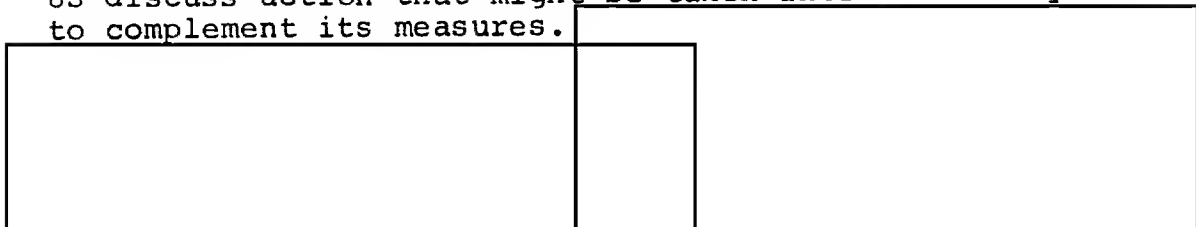
European Communities: Early agreement on ways to reduce the EC's mounting agricultural surpluses seems increasingly remote.

The EC agricultural ministers this week failed to agree on the Commission's proposal for price adjustments aimed at reducing production of some surplus commodities and increasing production of some products that the EC must now import. Each member was willing to buy part of the Commission's plan but could not agree on price decreases in commodities that would most affect its own farmers.

In spite of the general agreement among the members that something must be done to cut the expensive surpluses, there are some big obstacles. These are rooted in the domestic political problems of the six governments and in their varying approaches to the future nature of the common agricultural policy (CAP).

The crisis in the Italian Government has limited the negotiating ability of its representatives. Although Bonn would like a major revision of the CAP, it has not been able to agree internally on how to do this. The French want price cuts for some commodities, but are opposed to any major change in the CAP. Continuing surpluses could complicate entry negotiations with the UK, but it is also possible that the negotiations could provide the stimulus necessary to reform the CAP.

Failure of the EC to attack its surplus problem would restrict its ability to participate in any international efforts to regulate agricultural production. The Canadians recently took the initiative in this area by unilaterally cutting back the acreage that they will devote to wheat production this year. Ottawa has proposed that the EC, Australia, Argentina, and the US discuss action that might be taken internationally to complement its measures.



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India: The government's efforts to redirect private investment from large to small enterprises may reduce the level of private investment and could lead to a slackening of economic growth.

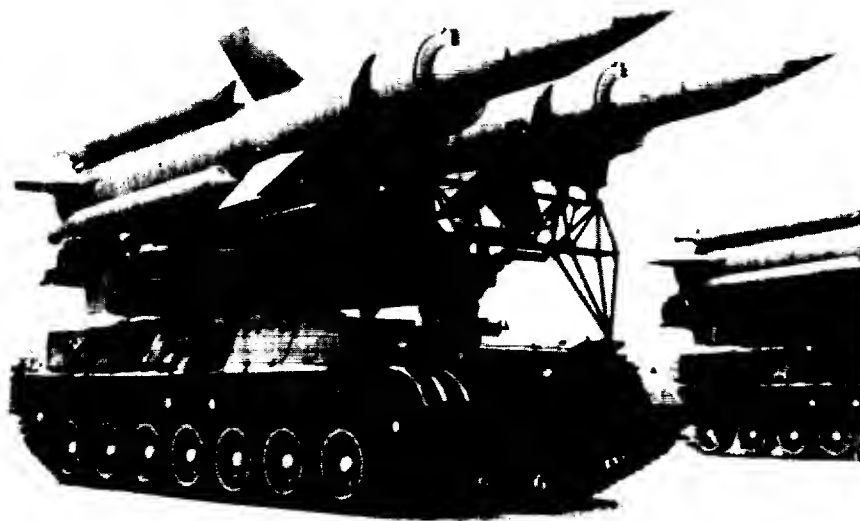
Major private investors in large industries are facing a more cumbersome government licensing control system. New Delhi also has announced its intention to enlarge progressively its direct management role in large, private firms. Simultaneously, the relatively inefficient small-scale private sector has been given further encouragement. The government has eliminated a number of restrictive licensing requirements and has reserved more industries exclusively for small enterprise development.

Before 1966 almost all large, private firms operated under an exhaustive system of government controls that eliminated competition among producers and stifled the incentive to innovate and reduce costs. At the urging of the World Bank, India then adopted a policy of progressively relaxing controls. The industrial recession of 1966-68, however, prevented an adequate test of this policy's benefits before New Delhi again tightened restrictions.

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Soviet SA-4 *Ganef* Mobile Surface-to-Air Missile (in Moscow parade)

IOC . . . 1967
Range . . . 25-30 nm
Altitude . . . 1000 to 65000 feet
Speed . . . Mach 2.6

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USSR: The Soviets have probably begun deploying the SA-4 Ganef mobile surface-to-air missile system with their ground forces in Hungary. The US defense attaché recently observed what appeared to be SA-4 equipment at a Soviet ground forces installation there. The track-mounted SAM was initially deployed with ground forces in the Soviet Union in 1967, and SA-4 equipment was first observed at Soviet installations in East Germany in early 1969.

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